

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
LINCOLN COUNTY HOSPITAL
MARCH 31, 2011 AND 2010

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LINCOLN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended March 31, 2011 and 2010

Our discussion and analysis of the financial performance of Lincoln County Hospital provides a narrative overview of the Hospital's financial activities for the years ended March 31, 2011 and 2010. Please read it in conjunction with the accompanying basic financial statements.

Financial highlights

The Hospital reported operating losses of \$611,588 in 2011, \$385,609 in 2010, and \$308,076 in 2009. After consideration of tax appropriations and other nonoperating revenues and expenses, the Hospital's net assets decreased by \$372,794 or 14 percent in 2011 and increased by \$22,647 or .8 percent in 2010.

Using these financial statements

The Hospital's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, and resources held by or for the benefit of the Hospital.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's net assets - the difference between assets and liabilities may be thought of as one way to measure the financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

LINCOLN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended March 31, 2011 and 2010

Assets, liabilities, and net assets

Table 1 below summarizes the Hospital's assets, liabilities, and net assets for the latest three calendar years.

Table 1: Assets, Liabilities, and Net Assets

| | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|-------------------------|---------------------|---------------------|---------------------|
| Assets | | | |
| Current assets | \$ 1,831,796 | \$ 1,760,006 | \$ 1,467,039 |
| Capital assets, net | 6,924,420 | 3,450,115 | 540,556 |
| Other noncurrent assets | <u>1,707,525</u> | <u>4,783,334</u> | <u>7,489,184</u> |
| Total assets | <u>10,463,741</u> | <u>9,993,455</u> | <u>9,496,779</u> |
| Current liabilities | 1,293,052 | 930,927 | 454,904 |
| Noncurrent liabilities | <u>6,796,950</u> | <u>6,315,995</u> | <u>6,317,989</u> |
| Total liabilities | <u>8,090,002</u> | <u>7,246,922</u> | <u>6,772,893</u> |
| Total net assets | <u>\$ 2,373,739</u> | <u>\$ 2,746,533</u> | <u>\$ 2,723,886</u> |

We try to maintain a consistent liquidity position in our balance sheet with our ratio of current assets to current liabilities equaling 1.41 in 2011, 1.90 in 2010, and 3.20 in 2009. This ratio has declined from year to year due to the change in the amount that is due to or from third-parties, the amount of cash carried on the balance sheet, which is affected by the payment position with Medicare, timing of withdrawals from board funds, and the increase in current portion of long-term obligations in 2011. The Hospital recorded a liability from third-party payors of \$271,545, in 2011, and a receivable of \$220,947 in 2010, and of \$341,163 in 2009. The change in this balance means that the Hospital's interim payments received were higher or lower than actual reimbursement, which affects the year-end cost report settlement and cash. The month-to-month cash flow of the Hospital affects the amount of funds requested from Board funds to cover operating losses.

The Lincoln County, Kansas Public Building Commission issued revenue bonds in the amount of \$6,300,000 on behalf of the Hospital during 2009. These funds were used to renovate the existing Hospital building. There was \$843,696 of costs related to this project in construction in progress at March 31, 2011, as compared to \$3,107,411 in 2010. The renovation was completed in April 2011. The Hospital also entered into a lease of a CT Scan and a PACS system in 2011. Both of these leases met the criteria for capitalization which resulted in a \$758,690 increase in capital assets and long-term obligations.

The Hospital's capital acquisitions were \$3,786,132, \$2,991,498, and \$183,783 during 2011, 2010, and 2009. The remaining change in capital assets, net, results from the normal annual depreciation provisions of \$311,828, \$81,938, and \$144,055 during 2011, 2010, and 2009. The increase in depreciation expense in 2011 is due to phase I and II of the Hospital renovation being placed into service during the year.

Other noncurrent assets consist of board funds that are available to fund the continuing operation of the Hospital, a debt service reserve fund, funds set aside for future replacement of capital assets, and funds set aside for payment

LINCOLN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended March 31, 2011 and 2010

of future health claims expense. These balances will fluctuate as tax appropriations and contributions are received and funds are dispersed to the Hospital's operating cash account. These funds decreased by \$29,148 in 2011 and increased by \$115,083 in 2010 as compared with the previous year. These funds are important in operating the Hospital on a day-to-day basis and to manage through periods of lower cash flows. Also included in other noncurrent assets are funds held by the Lincoln County Public Building Commission which are being used to fund a major renovation of the Hospital which began in fall of 2009.

Operating results and changes in net assets

In 2011, the Hospital's net assets decreased by \$372,794 or 14 percent. This change is made up of different components as displayed below in Table 2.

Table 2: Operating Results and Changes in Net Assets

| | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|---------------------------------------|---------------------|------------------|------------------|
| Operating revenues | | | |
| Net patient service revenue | \$ 5,148,075 | \$ 4,694,642 | \$ 4,589,336 |
| Other operating revenue | <u>101,365</u> | <u>55,657</u> | <u>40,992</u> |
| Total operating revenues | <u>5,249,440</u> | <u>4,750,299</u> | <u>4,630,328</u> |
| Operating expenses | | | |
| Salaries and benefits | 3,409,630 | 3,107,663 | 3,033,429 |
| Supplies and other | 2,139,570 | 1,946,307 | 1,760,920 |
| Depreciation and amortization | <u>311,828</u> | <u>81,938</u> | <u>144,055</u> |
| Total operating expenses | <u>5,861,028</u> | <u>5,135,908</u> | <u>4,938,404</u> |
| Operating loss | (611,588) | (385,609) | (308,076) |
| Nonoperating revenues net of expenses | 214,630 | 399,376 | 398,550 |
| Capital grants and contributions | <u>24,164</u> | <u>8,880</u> | |
| Increase (decrease) in net assets | <u>\$ (372,794)</u> | <u>\$ 22,647</u> | <u>\$ 90,474</u> |

The first component of the overall change in the Hospital's net assets is its operating loss - generally the difference between net patient service revenue and other operating revenues and the expenses incurred to generate those revenues. In 2011, the Hospital's operating loss increased by \$225,979 in comparison to 2010, while in 2010 the operating loss increased by \$77,533 in comparison to 2009. The Hospital's net patient service revenue in 2011 increased by 9.7 percent and in 2010 increased by 2.3 percent over the previous year. The change in net patient service revenue is affected by changes in charges to patients, payment rates by third-party payors, patient volumes, the type of services provided, bad debts, and, to a greater extent, the change in Medicare reimbursable costs. The increase in net revenues was accompanied with a 14 percent increase in operating expenses during 2011 as discussed below. Combined, these changes resulted in an increase in the operating loss of \$225,979 over 2011.

LINCOLN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended March 31, 2011 and 2010

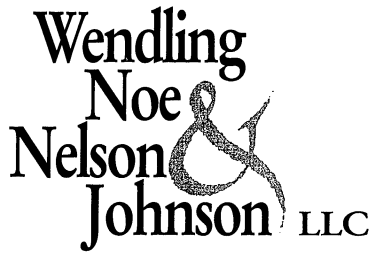
In 2011 and 2010, the Hospital received 81 percent of its net patient revenue from the Medicare program with these revenues determined based on the Hospital's status as a critical access hospital provider. This designation results in the Hospital services to Medicare beneficiaries being reimbursed primarily based upon allowable costs and has helped stabilize the Hospital's net patient service revenues. This high concentration of Medicare revenues, however, makes it challenging for the Hospital to generate operating profits, as revenues from non-Medicare payers are not sufficient to cover the costs that are not reimbursed by the Medicare program.

Employee salaries, wages, and benefits increased by \$301,967 (10 percent) in 2011 and increased by \$74,234 (2.4 percent) in 2010 as compared with the previous year. Salaries, wages, and employee benefits represent 65 percent, 63 percent, and 66 percent of total operating revenues in 2011, 2010, and 2009. Total Hospital staffing increased by 2.3 full-time equivalent employees in 2011 as compared to 2010, with the only other increases being caused by inflationary pressures and services covered by third-party contract service providers when employees cannot be retained for specific skilled positions. Employee benefits as a percentage of salary and wage expense was 23.5 percent in 2011, 23.1 percent in 2010, and 21.6 percent in 2009.

Supplies and other expenses increased by \$193,263 in 2011 and by \$185,387 in 2010, and decreased by \$236,520 in 2009. Items affecting the 2011 to 2010 comparison include increased costs of pharmacy supplies sold and rental costs of \$89,000, an increase in administrative costs of \$72,000, an increase in contract nursing expense of \$29,000, an increase in minor equipment of \$28,000, and an increase in physician recruitment expense of \$26,000. These increases were partially offset by a \$154,000 decrease in contract ER and clinic physician service expense. Items affecting the 2010 to 2009 comparison included increased costs for ER physician coverage and clinic physician coverage, cost of pharmacy supplies sold, and costs of laboratory purchased services.

Nonoperating revenues (expenses) include an annual tax appropriation from Lincoln County, noncapital grants and contributions, interest expense, and investment income earned on investments. Interest expense increased by \$204,000 in 2011 which was due to phase I and phase II of the renovation project being placed into service in 2011. The Hospital is highly dependent on these nonoperating revenues to offset operating losses and to maintain the financial health necessary to insure that the Hospital continues to provide high quality healthcare services to our patients.

This financial report is designed to provide a general overview of the Hospital's finances and to discuss the significant changes in our financial statements. If you have any questions about the report or need additional financial information, contact the Administration Office at Lincoln County Hospital, 624 N. 2nd, Lincoln, Kansas 67455.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Lincoln County Hospital

We have audited the accompanying financial statements of the business-type activity and discretely presented component unit of Lincoln County Hospital, a component unit of Lincoln County, Kansas, as of and for the years ended March 31, 2011 and 2010, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activity and discretely presented component unit of Lincoln County Hospital as of March 31, 2011 and 2010, and their respective results of operations, changes in their net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 1 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Wendling Noe Nelson & Johnson 22C

Topeka, Kansas
July 29, 2011

FINANCIAL STATEMENTS

LINCOLN COUNTY HOSPITAL

BALANCE SHEETS

March 31,

ASSETS

| | 2011 | | 2010 | |
|---|---------------------|-----------------------|---------------------|-----------------------|
| | <u>Hospital</u> | <u>Component unit</u> | <u>Hospital</u> | <u>Component unit</u> |
| CURRENT ASSETS | | | | |
| Cash | \$ 489,623 | \$ 55,787 | \$ 347,874 | \$ 60,722 |
| Investments | | 5,625 | | 5,542 |
| Assets limited as to use | 309,122 | | 480,447 | |
| Accounts receivable, net of allowance for uncollectible accounts of \$106,476 in 2011 and \$136,815 in 2010 | 878,293 | | 544,446 | |
| Other receivables | 1,131 | | 6,505 | |
| Inventories | 109,275 | | 119,868 | |
| Prepaid expenses and other | 44,352 | | 39,919 | |
| Estimated third-party payor settlements | | | 220,947 | |
| Total current assets | <u>1,831,796</u> | <u>61,412</u> | <u>1,760,006</u> | <u>66,264</u> |
| ASSETS LIMITED AS TO USE | | | | |
| By Board of Trustees | | | | |
| For operations | 1,359,186 | | 1,453,001 | |
| For debt service reserve | 91,917 | | 54,947 | |
| For capital assets | 30,639 | | 18,315 | |
| For health claims | 15,373 | | | |
| By Public Building Commission | 316,243 | | 3,509,299 | |
| | 1,813,358 | - | 5,035,562 | - |
| Less amounts required to meet current obligations | <u>309,122</u> | | <u>480,447</u> | |
| | <u>1,504,236</u> | - | <u>4,555,115</u> | - |
| CAPITAL ASSETS, net | <u>6,924,420</u> | - | <u>3,450,115</u> | - |
| OTHER ASSETS | | | | |
| Deferred financing costs, less accumulated amortization of \$27,294 in 2011 and \$15,164 in 2010 | 178,589 | | 190,719 | |
| Other receivables | 24,700 | | 37,500 | |
| | <u>203,289</u> | - | <u>228,219</u> | - |
| Total assets | <u>\$10,463,741</u> | <u>\$ 61,412</u> | <u>\$ 9,993,455</u> | <u>\$ 66,264</u> |

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

| | 2011 | | 2010 | |
|---|---------------------|---------------------------|---------------------|---------------------------|
| | <u>Hospital</u> | <u>Component unit</u> | <u>Hospital</u> | <u>Component unit</u> |
| CURRENT LIABILITIES | | | | |
| Current maturities of long-term obligations | \$ 260,006 | \$ - | \$ 1,994 | \$ - |
| Accounts payable | 67,583 | | 114,829 | |
| Construction costs payable | 264,362 | | 453,986 | |
| Salaries payable | 179,389 | | 149,278 | |
| Payroll taxes payable | 75,766 | | 60,153 | |
| Vacation benefits payable | 93,598 | | 92,008 | |
| Other accrued expenses | 51,416 | | 32,218 | |
| Interest payable | 29,387 | | 26,461 | |
| Estimated third-party payor settlements | <u>271,545</u> | | | |
| Total current liabilities | <u>1,293,052</u> | <u>-</u> | <u>930,927</u> | <u>-</u> |
| LONG-TERM OBLIGATIONS, less current maturities | | | | |
| | <u>6,796,950</u> | <u>-</u> | <u>6,315,995</u> | <u>-</u> |
| NET ASSETS | | | | |
| Invested in capital assets net of related debt | 139,196 | | 653,734 | |
| Restricted | | | | |
| For debt service | 58,385 | | | |
| For specific operating activities | | 49,973 | | 54,825 |
| Unrestricted | <u>2,176,158</u> | <u>11,439</u> | <u>2,092,799</u> | <u>11,439</u> |
| Total net assets | <u>2,373,739</u> | <u>61,412</u> | <u>2,746,533</u> | <u>66,264</u> |
| Total liabilities and net assets | <u>\$10,463,741</u> | <u>\$ 61,412</u> | <u>\$ 9,993,455</u> | <u>\$ 66,264</u> |

LINCOLN COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year ended March 31,

| | 2011 | | 2010 | |
|---|---------------------|---------------------------|---------------------|---------------------------|
| | <u>Hospital</u> | <u>Component unit</u> | <u>Hospital</u> | <u>Component unit</u> |
| Operating revenues | | | | |
| Net patient service revenue | \$ 5,148,075 | \$ - | \$ 4,694,642 | \$ - |
| Other | <u>101,365</u> | <u>50,382</u> | <u>55,657</u> | <u>69,742</u> |
| Total operating revenues | <u>5,249,440</u> | <u>50,382</u> | <u>4,750,299</u> | <u>69,742</u> |
| Operating expenses | | | | |
| Salaries and wages | 2,761,935 | | 2,525,460 | |
| Employee benefits | 647,695 | | 582,203 | |
| Supplies and other | 2,139,570 | 55,868 | 1,946,307 | 15,086 |
| Depreciation | <u>311,828</u> | | <u>81,938</u> | |
| Total operating expenses | <u>5,861,028</u> | <u>55,868</u> | <u>5,135,908</u> | <u>15,086</u> |
| Operating (loss) income | <u>(611,588)</u> | <u>(5,486)</u> | <u>(385,609)</u> | <u>54,656</u> |
| Nonoperating revenues (expenses) | | | | |
| Tax appropriations | 369,685 | | 363,293 | |
| Investment income | 29,165 | 634 | 38,045 | 169 |
| Interest expense | (206,231) | | (1,972) | |
| Noncapital grants and contributions | <u>22,011</u> | | <u>10</u> | |
| Total nonoperating revenues (expenses) | <u>214,630</u> | <u>634</u> | <u>399,376</u> | <u>169</u> |
| Excess of revenues over expenses (expenses over revenues) before capital grants and contributions | (396,958) | (4,852) | 13,767 | 54,825 |
| Capital grants and contributions | <u>24,164</u> | | <u>8,880</u> | |
| Increase (decrease) in net assets | (372,794) | (4,852) | 22,647 | 54,825 |
| Net assets beginning of year | <u>2,746,533</u> | <u>66,264</u> | <u>2,723,886</u> | <u>11,439</u> |
| Net assets end of year | <u>\$ 2,373,739</u> | <u>\$ 61,412</u> | <u>\$ 2,746,533</u> | <u>\$ 66,264</u> |

The accompanying notes are an integral part of these statements.

LINCOLN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
Year ended March 31,

| | 2011 | | 2010 | |
|---|--------------------|---------------------------|--------------------|---------------------------|
| | <u>Hospital</u> | <u>Component unit</u> | <u>Hospital</u> | <u>Component unit</u> |
| Cash flows from operating activities | | | | |
| Receipts from and on behalf of patients | \$ 5,306,720 | \$ - | \$ 4,980,665 | \$ - |
| Payments to or on behalf of employees | (3,343,118) | | (3,115,812) | |
| Payments for supplies and services | (2,180,656) | (55,868) | (1,879,297) | (15,086) |
| Other receipts and payments | <u>114,165</u> | <u>50,382</u> | <u>63,485</u> | <u>69,742</u> |
| Net cash provided (used) by operating activities | <u>(102,889)</u> | <u>(5,486)</u> | <u>49,041</u> | <u>54,656</u> |
| Cash flows from noncapital financing activities | | | | |
| Tax appropriations | 369,685 | | 363,293 | |
| Noncapital grants and contributions | <u>22,011</u> | | <u>10</u> | |
| Net cash provided by noncapital financing activities | <u>391,696</u> | <u>-</u> | <u>363,303</u> | <u>-</u> |
| Cash flows from capital and related financing activities | | | | |
| Purchase of capital assets | (3,184,851) | | (2,213,136) | |
| Principal paid on long-term obligations | (17,602) | | (31,919) | |
| Interest paid on long-term obligations | (320,419) | | (319,499) | |
| Capital grants and contributions | <u>24,164</u> | | <u>8,880</u> | |
| Net cash used by capital and related financing activities | <u>(3,498,708)</u> | <u>-</u> | <u>(2,555,674)</u> | <u>-</u> |
| Cash flows from investing activities | | | | |
| Changes in | | | | |
| Internally designated funds | 29,148 | | (115,083) | |
| Investments | | (83) | | (117) |
| Assets held by Public Building Commission | 3,193,056 | | 2,361,316 | |
| Investment income received | <u>129,446</u> | <u>634</u> | <u>46,014</u> | <u>169</u> |
| Net cash provided by investing activities | <u>3,351,650</u> | <u>551</u> | <u>2,292,247</u> | <u>52</u> |
| Net increase (decrease) in cash and cash equivalents | 141,749 | (4,935) | 148,917 | 54,708 |
| Cash and cash equivalents at beginning of year | <u>347,874</u> | <u>60,722</u> | <u>198,957</u> | <u>6,014</u> |
| Cash and cash equivalents at end of year | <u>\$ 489,623</u> | <u>\$ 55,787</u> | <u>\$ 347,874</u> | <u>\$ 60,722</u> |

The accompanying notes are an integral part of these statements.

LINCOLN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended March 31,

| | 2011 | | 2010 | |
|---|---------------------|---------------------------|------------------|---------------------------|
| | <u>Hospital</u> | <u>Component unit</u> | <u>Hospital</u> | <u>Component unit</u> |
| Reconciliation of operating (loss) income to net cash provided (used) by operating activities | | | | |
| Operating (loss) income | \$ (611,588) | \$ (5,486) | \$ (385,609) | \$ 54,656 |
| Adjustments to reconcile operating (loss) income to net cash (used) provided by operating activities | | | | |
| Depreciation | 311,828 | | 81,938 | |
| Provision for bad debts | 190,933 | | 234,908 | |
| Changes in | | | | |
| Accounts receivable | (524,780) | | (69,101) | |
| Estimated third-party payor settlements | 492,492 | | 120,216 | |
| Other assets | 12,800 | | (6,500) | |
| Inventories | 10,593 | | 11,940 | |
| Prepaid expenses and other | (4,433) | | 9,287 | |
| Accounts payable and accrued expenses | <u>19,266</u> | | <u>51,962</u> | |
| Net cash (used) provided by operating activities | <u>\$ (102,889)</u> | <u>\$ (5,486)</u> | <u>\$ 49,041</u> | <u>\$ 54,656</u> |
| Supplemental schedule of noncash investing and financing activities | | | | |
| Capital lease obligations incurred | <u>\$ 758,690</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these statements.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
March 31, 2011 and 2010

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

1. Reporting entity

Lincoln County Hospital (the Hospital) is owned by Lincoln County, Kansas, and is operated by the Board of Trustees of the Hospital, a seven-member governing board appointed by the governing body of the County. The Hospital, which was organized in 1952, is a not-for-profit general hospital located in Lincoln, Kansas. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Hospital is a component unit of the County.

2. Component unit

The financial statements include the discrete presentation of financial data of Lincoln County Hospital and Health Care Foundation (The Foundation). The component unit is reported separately to emphasize that it is legally separate from the Hospital.

The Foundation, which is a not-for-profit corporation, was established in 2005 for the purpose of providing financial assistance to the Hospital. The association is administered by a self-perpetuating Board of Directors. Two of the five members of the Foundation's Board are also members of the Hospital's Board of Trustees.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Accounting," the Hospital has implemented all GASB pronouncements, and Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued before November 30, 1989, except those that conflict with GASB pronouncements, and has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

5. Cash and cash equivalents

Cash and cash equivalents include all cash and highly liquid debt instruments with maturities of three months or less excluding any such amounts included in assets limited as to use.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2011 and 2010

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

6. Allowance for doubtful accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each type of payor.

7. Inventories

Inventories are stated at cost as determined using the first-in, first-out method.

8. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for on-going hospital operations, for the replacement of capital assets, for debt service reserve, and for payment of partially self-insured health claims, over which the Board retains control; and assets whose use is limited under a bond indenture agreement that are held by the Lincoln County Public Building Commission.

9. Capital assets

Capital assets, including assets recorded as capital leases, are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended useful lives of the item or the properties.

10. Vacation benefits payable

Employees of the Hospital are entitled to paid vacation depending on length of service and whether they are full or part time. Upon resignation, termination, or retirement from service with the Hospital, employees are entitled to payment for all accrued vacation, up to an allowable maximum. The Hospital accrues vacation benefits as earned.

11. Net assets

Net assets of the Hospital are classified in three components. "Net assets invested in capital assets net of related debt" consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase of assets. "Restricted net assets" are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with the Lincoln County, Kansas, Public Building Commission as required under the Pledge of Revenues and Operation Agreement signed in connection with the issuance of bonds by the Lincoln County, Kansas, Public Building Commission. "Unrestricted net assets" are remaining net assets that do not meet the definitions of the other two components of net assets.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2011 and 2010

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

12. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Hospital's principal activity. Nonexchange revenues, including noncapital grants and contributions and tax appropriations, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

13. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, contractual adjustments, and provision for bad debts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

14. Cost of borrowing

Interest costs including amortization of deferred financing costs and bond premiums incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Deferred financing costs incurred in connection with the issuance of long-term debt are amortized over the term of the related debt using the interest method.

15. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions, including contributions of capital assets, are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

16. Restricted resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

17. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2011 and 2010

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the balance sheet as estimated third-party payor settlements consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Payments to the Hospital under the critical access provisions for inpatient, outpatient, and swing-bed patient services are determined on the basis of allowable costs. The Hospital is paid for cost reimbursable and other services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare fiscal intermediary through March 31, 2010.

Medicaid - Services rendered to Medicaid program beneficiaries, other than those covered by managed care plans, are paid under provisions applicable to critical access hospitals. Payments to the Hospital under the critical access hospital provisions are based on cost reimbursement methodologies used by the Medicare program. Final settlement with the Medicaid program is based on a cost report submitted and settled upon by the Medicare program. Medicaid has final settled these cost reports through March 31, 2008. For the period January 1, 2010 through June 30, 2010, payments from the Medicaid program were reduced by 10 percent as the State of Kansas worked to balance its budget.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

A summary of gross and net patient service revenue follows:

| | <u>2011</u> | <u>2010</u> |
|-------------------------------------|---------------------|---------------------|
| Gross patient service revenue | \$ 6,304,819 | \$ 6,342,157 |
| Third-party contractual adjustments | (940,571) | (1,378,777) |
| Charity care | (14,021) | (23,198) |
| Other discounts and allowances | (11,219) | (10,632) |
| Provision for bad debts | <u>(190,933)</u> | <u>(234,908)</u> |
| Net patient service revenue | <u>\$ 5,148,075</u> | <u>\$ 4,694,642</u> |

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2011 and 2010

NOTE B - NET PATIENT SERVICE REVENUE - Continued

Revenue from the Medicare program accounted for approximately 81 percent of the Hospital's net patient service revenue during 2011 and 2010, respectively. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

NOTE C - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair value equal to total deposits in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank.

At March 31, 2011, the carrying amount of the Hospital's bank deposits, including certificates of deposit, was \$1,986,599 and the bank balances were \$1,962,202. Of the bank balances, \$350,000 was covered by federal depository insurance and \$1,612,202 was uninsured and collateralized with securities held by a third-party bank, but not registered in the Hospital's name.

NOTE D - ASSETS LIMITED AS TO USE

The composition of assets limited as to use is as follows:

| | <u>2011</u> | <u>2010</u> |
|-------------------------|---------------------|---------------------|
| Board of Trustee funds | | |
| Cash | \$ 1,397,115 | \$ 716,263 |
| Certificates of deposit | <u>100,000</u> | <u>810,000</u> |
| | <u>\$ 1,497,115</u> | <u>\$ 1,526,263</u> |
| Under bond agreements | | |
| Cash | \$ 316,243 | \$ 19,901 |
| Certificates of deposit | <u>-</u> | <u>3,489,398</u> |
| | <u>\$ 316,243</u> | <u>\$ 3,509,299</u> |

Assets limited as to use by bond agreements are held in the following accounts:

| | <u>2011</u> | <u>2010</u> |
|------------------------|-------------------|---------------------|
| Project fund | \$ 257,858 | \$ 3,489,618 |
| Principal and interest | <u>58,385</u> | <u>19,681</u> |
| | <u>\$ 316,243</u> | <u>\$ 3,509,299</u> |

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2011 and 2010

NOTE E - CAPITAL ASSETS

| | Balance March 31, 2010 | Transfers and additions | Retirements | Balance March 31, 2011 |
|--|------------------------------|-------------------------------|----------------|------------------------------|
| Land | \$ 15,926 | \$ 3,799 | \$ - | \$ 19,725 |
| Land improvements | 38,879 | 127,453 | | 166,332 |
| Buildings | 965,974 | 912,647 | 33,157 | 1,845,464 |
| Fixed equipment | 590,943 | 4,098,290 | 10,627 | 4,678,606 |
| Movable equipment | <u>1,487,188</u> | <u>907,658</u> | <u>156,852</u> | <u>2,237,994</u> |
| | <u>3,098,910</u> | <u>6,049,847</u> | <u>200,636</u> | <u>8,948,121</u> |
| Less accumulated depreciation and amortization | | | | |
| Land improvements | 9,442 | 8,635 | | 18,077 |
| Buildings | 823,910 | 60,617 | 33,157 | 851,370 |
| Fixed equipment | 551,270 | 182,768 | 10,627 | 723,411 |
| Movable equipment | <u>1,371,584</u> | <u>59,807</u> | <u>156,852</u> | <u>1,274,539</u> |
| | <u>2,756,206</u> | <u>311,827</u> | <u>200,636</u> | <u>2,867,397</u> |
| Construction in progress | <u>3,107,411</u> | <u>(2,263,715)</u> | | <u>843,696</u> |
| Capital assets, net | <u>\$ 3,450,115</u> | <u>\$ 3,474,305</u> | <u>\$ -</u> | <u>\$ 6,924,420</u> |
| | | | | |
| | Balance March 31, 2009 | Transfers and additions | Retirements | Balance March 31, 2010 |
| Land | \$ 11,000 | \$ 4,926 | \$ - | \$ 15,926 |
| Land improvements | 10,897 | 27,982 | | 38,879 |
| Buildings | 874,184 | 91,790 | | 965,974 |
| Fixed equipment | 590,943 | | | 590,943 |
| Movable equipment | <u>1,458,808</u> | <u>28,380</u> | | <u>1,487,188</u> |
| | <u>2,945,832</u> | <u>153,078</u> | <u>-</u> | <u>3,098,910</u> |
| Less accumulated depreciation and amortization | | | | |
| Land improvements | 8,724 | 718 | | 9,442 |
| Buildings | 808,241 | 15,669 | | 823,910 |
| Fixed equipment | 545,807 | 5,463 | | 551,270 |
| Movable equipment | <u>1,311,495</u> | <u>60,089</u> | | <u>1,371,584</u> |
| | <u>2,674,267</u> | <u>81,939</u> | <u>-</u> | <u>2,756,206</u> |
| Construction in progress | <u>268,991</u> | <u>2,838,420</u> | | <u>3,107,411</u> |
| Capital assets, net | <u>\$ 540,556</u> | <u>\$ 2,909,559</u> | <u>\$ -</u> | <u>\$ 3,450,115</u> |

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2011 and 2010

NOTE F - LONG-TERM OBLIGATIONS

Long-term obligations are summarized as follows:

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| Capital lease obligation with the Lincoln County, Kansas Public Building Commission; interest rate of 4.375% to 5.50%; issued on December 15, 2008, in the original amount of \$6,300,000; due serially through March 1, 2035 | \$ 6,300,000 | \$ 6,300,000 |
| Capital lease obligation; imputed interest rate of 13.22%; paid off in 2011 | | 1,994 |
| Capital lease obligation; imputed interest rate of 5.50%; payable in monthly installments of \$10,850 through March 2017; collateralized by leased equipment with an amortized cost of \$659,590 at March 31, 2011 | 668,880 | |
| Capital lease obligation; interest rate of 4.625%; payable in monthly installments of \$2,053 through June 2014; collateralized by leased equipment with an amortized cost of \$659,590 at March 31, 2011 | <u>74,202</u> | |
| | 7,043,082 | 6,301,994 |
| Unamortized premium on bonds | <u>13,874</u> | <u>15,995</u> |
| | 7,056,956 | 6,317,989 |
| Less current maturities | <u>260,006</u> | <u>1,994</u> |
| | <u>\$ 6,796,950</u> | <u>\$ 6,315,995</u> |

The following is a summary of changes in long-term obligations:

| | <u>Capital lease obligations</u> | <u>Capital lease with PBC</u> | <u>Total long-term obligations</u> |
|-------------------------------|--|---------------------------------------|--|
| Outstanding at April 1, 2009 | \$ 33,913 | \$6,300,000 | \$6,333,913 |
| Principal payments | <u>(31,919)</u> | | <u>(31,919)</u> |
| Outstanding at March 31, 2010 | 1,994 | 6,300,000 | 6,301,994 |
| Obligations incurred | 758,690 | | 758,690 |
| Principal payments | <u>(17,602)</u> | | <u>(17,602)</u> |
| Outstanding at March 31, 2011 | <u>\$ 743,082</u> | <u>\$6,300,000</u> | <u>\$7,043,082</u> |

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2011 and 2010

NOTE F - LONG-TERM OBLIGATIONS - Continued

On December 15, 2008, the Lincoln County, Kansas, Public Building Commission (PBC) issued Revenue Bonds, Series 2008 (the Bonds), in the amount of \$6,300,000, on behalf of the Hospital pursuant to a bond resolution dated December 1, 2008. The proceeds are to be used, together with other available funds of the Hospital, for the purpose of renovating the existing Hospital building (the Project).

The PBC is a municipal corporation created by the County to issue the Bonds. In connection with the issuance of the Bonds, the PBC, the County and the Hospital entered into a lease agreement in which the PBC leased the Project to the County and the Hospital for rental payments sufficient to provide for the payment of principal and interest on the Bonds. The lease contains a covenant by the County to make all rental payments required under the lease from whatever source of revenues is legally available and to levy ad valorem taxes without limit if necessary to make such payments.

In connection with the issuance of the Bonds, the Hospital and the County entered into a pledge of revenues agreement. Under the agreement, the Hospital pledged its net revenues to the County to secure the payment of principal and interest on the Bonds. The pledge of revenues agreement requires the Hospital to set aside certain amounts sufficient to pay principal and interest on the Bonds as payments are due. Such reserves were maintained and are included with assets limited as to use in the financial statements.

Scheduled annual debt service requirements on the lease with the Public Building Commission are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------|---------------------|---------------------|----------------------|
| 2012 | \$ 140,000 | \$ 317,527 | \$ 457,527 |
| 2013 | 150,000 | 310,528 | 460,528 |
| 2014 | 155,000 | 303,028 | 458,028 |
| 2015 | 165,000 | 295,278 | 460,278 |
| 2016 | 175,000 | 287,027 | 462,027 |
| Thereafter | <u>5,515,000</u> | <u>3,276,177</u> | <u>8,791,177</u> |
| | <u>\$ 6,300,000</u> | <u>\$ 4,789,565</u> | <u>\$ 11,089,565</u> |

The following is a schedule of future minimum lease payments under capital leases, excluding the lease with the Public Building Commission, as of March 31, 2011:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------|-------------------|-------------------|-------------------|
| 2012 | \$ 119,065 | \$ 35,771 | \$ 154,836 |
| 2013 | 125,327 | 29,509 | 154,836 |
| 2014 | 131,919 | 22,917 | 154,836 |
| 2015 | 120,087 | 16,265 | 136,352 |
| 2016 | 120,112 | 10,088 | 130,200 |
| Thereafter | <u>126,572</u> | <u>3,628</u> | <u>130,200</u> |
| | <u>\$ 743,082</u> | <u>\$ 118,178</u> | <u>\$ 861,260</u> |

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2011 and 2010

NOTE F - LONG-TERM OBLIGATIONS - Continued

Total interest costs are summarized as follows:

| | <u>2011</u> | <u>2010</u> |
|---|-------------------|-----------------|
| Interest incurred | \$ 323,345 | \$ 319,500 |
| Amortization of deferred financing costs net of bond premium amortization | <u>10,010</u> | <u>12,152</u> |
| | 333,355 | 331,652 |
| Less | | |
| Net capitalized interest costs | <u>127,124</u> | <u>329,680</u> |
| Interest expense | <u>\$ 206,231</u> | <u>\$ 1,972</u> |

NOTE G - PENSION PLAN

Substantially all employees of the Hospital participate in the Lincoln County Hospital Employees' Pension Plan (the Plan), which is a defined contribution plan. The payroll for employees covered by the Plan for the years ended March 31, 2011 and 2010, was \$1,817,365 and \$1,907,125, respectively. Substantially all employees of the Hospital who are 21 years of age or older are eligible to participate in the Plan after one year of employment. Covered employees are required under the terms of the Plan to contribute 2.5 percent of the first \$7,800 of covered compensation plus 5 percent of the covered compensation exceeding \$7,800. Under the terms of the Plan, the Hospital contributes 4.5 percent of the first \$7,800 of covered compensation, plus 9 percent of the covered compensation exceeding \$7,800. Contributions to the Plan made by employees vest immediately, and contributions to the Plan made by the Hospital vest based upon the Plan's vesting schedule and the employees' years of service with the Hospital. The total cost of the Plan for the years ended March 31, 2011 and 2010, was \$134,255 and \$133,766, respectively.

NOTE H - CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors is as follows:

| | <u>2011</u> | <u>2010</u> |
|----------------------|---------------|---------------|
| Medicare | 56.2% | 59.0% |
| Medicaid | 1.9 | 4.3 |
| Blue Cross | 11.8 | 7.4 |
| Commercial insurance | 16.6 | 7.2 |
| Self-pay | <u>13.5</u> | <u>22.2</u> |
| | <u>100.0%</u> | <u>100.0%</u> |

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2011 and 2010

NOTE I - RISK MANAGEMENT

For the years ended March 31, 2011 and 2010, the Hospital was insured for hospital professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. All coverage is on a claims-made basis. The above policies were renewed on January 1, 2011, for the policy period from January 1, 2011 to January 1, 2012.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE J - COMMITMENTS AND CONTINGENCIES

The Hospital purchases professional and general liability insurance to cover medical malpractice and other liability claims (see Note I). There are no known claims and incidents that have been asserted; therefore, no accrual for loss contingencies has been made.

During 2010, the Hospital entered into construction contracts to complete renovations to the Hospital. At March 31, 2011, the remaining cost of the construction project to be completed under the contracts is approximately \$264,000, of which the full amount has been accrued as a liability.

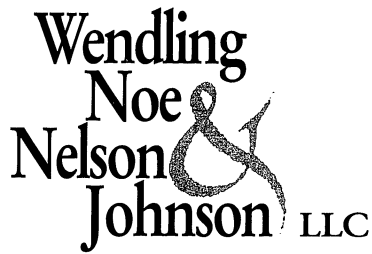
NOTE K - RELATED ORGANIZATIONS

Lincoln County levies and collects property taxes for the benefit of the Hospital. The Hospital received \$369,685 and \$363,293 in tax appropriations from Lincoln County in 2011 and 2010, respectively. The Hospital also received \$46,175 and \$8,800 in contributions from the Foundation in 2011 and 2010, respectively.

NOTE L - SUBSEQUENT EVENTS

Management has evaluated all subsequent events through the date of the independent accountants' report, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION



Certified Public Accountants
and Management Consultants

Brian J. Florea, CPA
Derek H. Hart, CPA
John R. Helms, CPA
Darrell D. Loyd, CPA
Eric L. Otting, CPA

Jere Noe, CPA
John E. Wendling, CPA
Gary D. Knoll, CPA
Adam C. Crouch, CPA
Heather R. Eichem, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON SUPPLEMENTAL INFORMATION

Board of Trustees
Lincoln County Hospital

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole of Lincoln County Hospital as of and for the years ended March 31, 2011 and 2010, which are presented in a preceding section of this report. The supplemental information presented hereinafter is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental information presented on pages 22 and 23 has been subjected to the audit procedures applied in the audits of the basic financial statements. In our opinion, the supplemental information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wendling Noe Nelson & Johnson 22C

Topeka, Kansas
July 29, 2011

LINCOLN COUNTY HOSPITAL
PATIENT SERVICE REVENUE
Year ended March 31,

| | 2011 | | | 2010 |
|---|---------------------|---------------------|---------------------|---------------------|
| | <u>Inpatient</u> | <u>Outpatient</u> | <u>Total</u> | <u>Total</u> |
| Routine services | | | | |
| Adults and pediatrics | \$ <u>1,310,797</u> | \$ <u>-</u> | \$ <u>1,310,797</u> | \$ <u>1,116,936</u> |
| Ancillary services | | | | |
| Operating room | | | | 1,794 |
| Radiology, ultrasound, nuclear medicine, echocardiography and vascular studies | 82,753 | 300,440 | 383,193 | 467,224 |
| CT scan and MRI | 69,692 | 411,625 | 481,317 | 539,266 |
| Laboratory and blood | 190,865 | 773,805 | 964,670 | 983,709 |
| Physical therapy | 111,379 | 315,006 | 426,385 | 344,633 |
| Occupational therapy | 105,670 | 29,688 | 135,358 | 147,238 |
| Speech therapy | 8,507 | | 8,507 | 5,339 |
| Electrocardiology | 15,569 | 47,481 | 63,050 | 81,038 |
| Medical supplies | 278,018 | 64,162 | 342,180 | 428,449 |
| Pharmacy | 882,101 | 359,035 | 1,241,136 | 1,272,660 |
| Emergency room | 13,012 | 205,818 | 218,830 | 198,066 |
| Observation care | | 5,192 | 5,192 | 8,957 |
| Clinic | | 724,204 | 724,204 | 746,848 |
| | <u>1,757,566</u> | <u>3,236,456</u> | <u>4,994,022</u> | <u>5,225,221</u> |
| | <u>\$ 3,068,363</u> | <u>\$ 3,236,456</u> | 6,304,819 | 6,342,157 |
| Less | | | | |
| Contractual adjustments - third-party payors | | | 940,571 | 1,378,777 |
| Charity care | | | 14,021 | 23,198 |
| Administrative discounts | | | 11,219 | 10,632 |
| Provision for bad debts | | | 190,933 | 234,908 |
| Net patient service revenue | | | <u>\$ 5,148,075</u> | <u>\$ 4,694,642</u> |

LINCOLN COUNTY HOSPITAL
OPERATING EXPENSES BY FUNCTIONAL DIVISION
Year ended March 31,

| | 2011 | | | 2010 | | |
|---|---|---------------------|---------------------|---|---------------------|---------------------|
| | Supplies and other, employee benefits, and | | | Supplies and other, employee benefits, and | | |
| | <u>Salaries</u> | <u>depreciation</u> | <u>Total</u> | <u>Salaries</u> | <u>depreciation</u> | <u>Total</u> |
| Routine services | | | | | | |
| Adults and pediatrics | \$ 683,729 | \$ 319,953 | \$ 1,003,682 | \$ 724,877 | \$ 254,872 | \$ 979,749 |
| Ancillary services | | | | | | |
| Operating room | | 35 | 35 | | | |
| Radiology, ultrasound, nuclear medicine, echocardiography and vascular studies | 141,367 | 122,475 | 263,842 | 135,751 | 105,238 | 240,989 |
| CT scan and MRI | 10,904 | 111,530 | 122,434 | 14,254 | 127,170 | 141,424 |
| Laboratory and blood | 99,136 | 181,384 | 280,520 | 96,193 | 177,100 | 273,293 |
| Physical therapy | | 122,851 | 122,851 | 2,608 | 112,318 | 114,926 |
| Occupational therapy | | 64,728 | 64,728 | | 65,376 | 65,376 |
| Speech therapy | | 5,753 | 5,753 | | 2,976 | 2,976 |
| Electrocardiology | 3,280 | | 3,280 | 3,902 | | 3,902 |
| Medical supplies | 21,542 | 69,567 | 91,109 | 22,262 | 70,022 | 92,284 |
| Pharmacy | | 355,916 | 355,916 | | 264,514 | 264,514 |
| Emergency room | 143,577 | 206,237 | 349,814 | 86,963 | 331,603 | 418,566 |
| Clinic | 717,725 | 283,571 | 1,001,296 | 540,983 | 252,179 | 793,162 |
| Ambulance | | | | | 1,356 | 1,356 |
| | <u>1,137,531</u> | <u>1,524,047</u> | <u>2,661,578</u> | <u>902,916</u> | <u>1,509,852</u> | <u>2,412,768</u> |
| General services | | | | | | |
| Administration and general | 98,937 | 256,081 | 355,018 | 96,998 | 183,325 | 280,323 |
| Accounting | 185,800 | 155,708 | 341,508 | 182,807 | 137,027 | 319,834 |
| Plant operations and maintenance | 51,615 | 216,024 | 267,639 | 52,584 | 172,246 | 224,830 |
| Laundry | 28,680 | 33,734 | 62,414 | 25,597 | 21,302 | 46,899 |
| Housekeeping | 80,657 | 53,349 | 134,006 | 60,002 | 37,291 | 97,293 |
| Dietary | 185,557 | 155,061 | 340,618 | 179,782 | 137,836 | 317,618 |
| Nursing administration | 96,690 | 29,519 | 126,209 | 139,983 | 36,569 | 176,552 |
| Medical records | 81,789 | 33,787 | 115,576 | 89,759 | 40,255 | 130,014 |
| Education and activities | 58,878 | 9,448 | 68,326 | | 553 | 553 |
| Patient care coordination | 72,072 | 20,602 | 92,674 | 70,155 | 19,791 | 89,946 |
| Employee benefits - other | | 46,514 | 46,514 | | 41,179 | 41,179 |
| Depreciation - building | | 245,266 | 245,266 | | 18,350 | 18,350 |
| | <u>940,675</u> | <u>1,255,093</u> | <u>2,195,768</u> | <u>897,667</u> | <u>845,724</u> | <u>1,743,391</u> |
| | <u>\$ 2,761,935</u> | <u>\$ 3,099,093</u> | <u>\$ 5,861,028</u> | <u>\$ 2,525,460</u> | <u>\$ 2,610,448</u> | <u>\$ 5,135,908</u> |